

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2021-324-WS**

IN RE: Application of Kiawah Island Utility, Inc.   ) for Adjustment of Rates and Charges            ) (Increase) and Modifications to Certain        ) Terms and Conditions for the Provision of     ) Water and Sewer Service                         )	<b>PETITION FOR REHEARING          AND RECONSIDERATION</b>
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Pursuant to S.C. Code § 58-5-330 and 10 S.C. Code Ann. Regs. 103-825 and applicable South Carolina law, Kiawah Island Utility, Inc. (“KIU”) hereby petitions the Public Service Commission of South Carolina (“Commission”) to rehear and reconsider its rulings in Order No. 2022-161 (“Order”) <sup>1</sup>dated March 4, 2022, denying KIU’s motion for a protective order for certain portions of the direct testimony of Mujeeb Hafeez filed in the above docket. For the reasons set out below, the Commission should rehear and reconsider its Order and grant KIU the following relief:

- (1) Grant KIU’s motion for a protective order to prevent disclosure of its employees’ compensation protected by S.C. Code Ann. Section 30-4-40(a)(2); or
- (2) In the alternative, Grant KIU leave to prefile revised direct testimony omitting its employees’ compensation so as to protect its employees from an unreasonable invasion of personal privacy.

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<sup>1</sup> Order No. 2022-161 supplements the Commission’s Directive Order No. 2022-145.

## BACKGROUND

In its motion for protective order dated January 27, 2022, KIU sought to have limited portions the direct testimony of Mujeeb Hafeez filed herein as confidential. The testimony of this witness discusses salary information of individual employees which KIU submits constitutes confidential personal information and is protected from disclosure by S.C. Code Ann. Sections 30-4-10 et seq. and is otherwise protected by law. No party to the docket contested KIU's motion for a protective order.

Mr. Hafeez addressed the costs of two corporate functions which operate with a single employee. First, the Human Resources function consists of one employee, which Mr. Hafeez testified was a sufficient staffing level. The public version of Mr. Hafeez's testimony concerning the Human Resources Function for which KIU sought confidential treatment is in part as follows.

The adjusted recorded cost attributable to the Human Resources function in the Test Year was \$1.036 million. These costs consist of payroll and outside services. Approximately [\*\*\*\*BEGIN CONFIDENTIAL\*\*\*\*] [REDACTED] [\*\*\*\*END CONFIDENTIAL\*\*\*\*] represents payroll and benefits. This level of payroll and benefits is appropriate. Incentive compensation based on financial measures has been excluded from Test Year costs. Additionally, approximately [\*\*\*\*BEGIN CONFIDENTIAL\*\*\*\*] [REDACTED] [\*\*\*\*END CONFIDENTIAL\*\*\*\*] represents the cost attributable for outside services. These outside services consist of professional fees attributable to various consultants and vendors who provide professional advisory, administration, training, and financial services and are indispensable in support of the human resources functions. Together, these two cost components amount to 90.2% of the total cost of this function. The remaining 9.8% of costs relate to employee education and other general and administrative costs. Therefore, the \$1.036 million cost for Human Resources and the indispensable outside services on which this function relies is a reasonable and necessary cost for SouthWest regarding the Human Resources function. Hafeez Prefiled Direct at page 16, line 11 – page 17, line 3

The unredacted testimony establishes that the Human Resources function total for the test year was \$1.036 million. The witness' confidential testimony sets out the two components of costs attributable to the Human Resource Function – payroll for the sole employee and outside services necessary for the operation of this function. To protect its employee from an unnecessary loss of privacy, it is not sufficient to simply redact payroll costs. Because there are only two components to the total cost, revealing the cost for outside services permits a simple calculation to determine this employee's salary and benefits. By redacting the compensation of SouthWest Water Company's ("SouthWest") employee, the employee's privacy is protected. Therefore, KIU sought to redact the salary and cost figures of the Human Resource function. A disclosure of the redacted information would constitute an unreasonable invasion of privacy.

Mr. Hafeez also addressed the Facilities function costs sought to be recovered. The Facilities function consists of a single employee who is responsible for the daily maintenance and operation of SouthWest's leased corporate office and warehouse space. Mr. Hafeez will testify that this employee is able to maintain and operate these facilities. The public version of Mr. Hafeez's testimony concerning the Facilities function for which KIU sought confidential treatment is in part as follows.

The adjusted recorded cost attributable to the Facilities function for the Test Year was approximately \$576,000. These costs consist of payroll and repair and maintenance. Approximately [\*\*\*\*BEGIN CONFIDENTIAL\*\*\*\*] [REDACTED] [\*\*\*\*END CONFIDENTIAL\*\*\*\*] represents payroll and benefits for one person, or [\*\*\*\*BEGIN CONFIDENTIAL\*\*\*\*] [REDACTED] [\*\*\*\*END CONFIDENTIAL\*\*\*\*] of the total cost. This level of payroll and benefits is appropriate for a senior maintenance technician. As noted above, approximately \$468,000, or 81.3%, represents the net cost of rent, utilities, maintenance and repair, and property taxes for the Reed Road and Eldridge Road facilities. Together, these cost components amount to [\*\*\*\*BEGIN CONFIDENTIAL\*\*\*\*] [REDACTED] [\*\*\*\*END CONFIDENTIAL\*\*\*\*] of the total cost of this function. The total

costs of \$576,000 represent a reasonable and necessary cost for SouthWest with respect to the facilities function. Hafeez Prefiled Direct at page 18, line 22 – page 19, line 11.

KIU has no reluctance to disclose the total costs of the Facilities function and has set out the total cost to be \$576,000. Here again, Mr. Hafeez sought to protect this employee from an unnecessary loss of privacy and redacted the payroll cost figures of the facilities technician. A disclosure of the redacted information would constitute an unreasonable invasion of privacy.

### **GROUND FOR REHEARING AND RECONSIDERATION**

(1) The Commission overlooked and misapprehended the nature of the privacy interest sought to be protected by KIU. Compensation of private individuals<sup>2</sup> are protected by S.C. Code Ann. Section 3-4-40(a)(2) which protects “[i]nformation of a personal nature where public disclosure thereof would constitute an unreasonable invasion of personal privacy.” In each instance, KIU sought to protect the salary of a single employee. The Human Resources function involved a single employee, a company vice president. Similarly, the Facilities function involved a single maintenance technician. If KIU is forced to reveal the payroll figure for these employees, a reader would be able to determine what this employee is paid, an unreasonable invasion of the employee’s privacy. KIU has an interest in seeking to protect the salary information of these employees from fellow employees, competitors, or inquisitive members of the public.

The essential purpose of the FOIA is to protect the public from secret government activity. *Burton v. York County Sheriff’s Department*, 358 S.C. 339, 594 S.E.2d 888 (Ct. App. 2004). However, the purpose of the FOIA is tempered by the privacy exemption found in S.C. Code Ann.

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<sup>2</sup> Payroll, benefits information, and payment for outside services set out as dollar amounts are not in and of themselves protected by S.C. Code Ann. Section 30-4-40(a).

Section 30-4-40(a)(2). Our Supreme Court has defined the right to privacy as the right of an individual to be let alone and to live a life free from unwarranted publicity. *Id.* Here, the Commission must balance the interest of the individual's privacy on the one hand against the interest of the public's need to know on the other. *South Carolina Lottery commission v. Glassmeyer*, 433 S.C. 244, 857 S.E.2d 889 (2021).

No party has questioned the compensation of the two employees. The parties to this docket are informed of components of the cost of the Human Resources and Facilities functions. KIU has disclosed the compensation of each of these employees as well as attendant costs of these functions in discovery subject to confidentiality. On the facts of this case, the privacy interest of SouthWest's two employees outweighs the public interest in learning the compensation of these two employees.

The Commission held that because KIU is a public utility, the salaries of its employees are public information (Order No. 2022-145). The Commission overlooked and misapprehended the nature of KIU's ownership. KIU is privately owned by SouthWest, itself a privately owned utility. Neither is publicly owned in the sense that its financial records require disclosure by securities regulation or other law. However, KIU is a public utility as defined by S.C. Code Ann. Section 58-5-10(4) because it furnishes or supplies "water, sewerage collection, sewerage disposal...to the public." *Id.* While in certain instances, compensation paid by public bodies is public<sup>3</sup>, compensation of employees of privately owned utilities is protected by S.C. Code Ann. Section 30-4-40(a)(2). To the extent that KIU has an interest in preventing its competitors from learning KIU's salary scale for senior management, the salary of the Senior Vice President is protected as a trade secret S.C. Code Ann. Section 30-4-40(a)(1). Accordingly, KIU urges the Commission

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<sup>3</sup> See S.C. Code Ann. Section 30-4-40(a)(6),

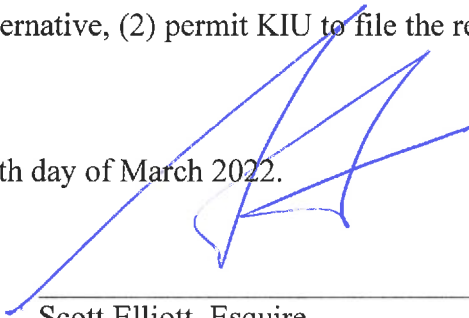
to reconsider its Order No. 2022-161 and grant KIU's motion for a protective order of certain portions of Mr. Hafeez's direct testimony.

(2). In the alternative, KIU moves for an order of this Commission authorizing KIU to file and serve revised direct testimony from Mr. Hafeez which discloses the total costs of the Human Resources and Facilities functions while omitting testimony which would reveal the compensation of these two employees, thereby protecting its employees from an unreasonable invasion of privacy after prefilings, witnesses are routinely permitted to revise, correct or withdraw portions of their testimony. There is no prejudice to the parties and allowing the witness to file revised testimony omitting compensation detail for its two employees. Therefore, as alternative relief from Order No. 2022-161, KIU seeks leave to file the revised direct testimony of Mr. Hafeez attached hereto.

### CONCLUSION

The Commission should rehear and reconsider Order No 2022-161 to (1) grant KIU's motion for a protective order or, in the alternative, (2) permit KIU to file the revised testimony of Mr. Hafeez attached hereto.

Respectfully submitted, this the 7th day of March 2022.



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**THE PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA**

**DOCKET NO. 2021-324-WS**

IN RE: Application of Kiawah Island Utility,	)	<b>REVISED DIRECT</b>
Incorporated to File Proposed Changes	)	<b>TESTIMONY</b>
in Rates, Charges, Classifications	)	
and/or Regulations for Water and	)	<b>OF</b>
Sewer Service.	)	<b>MUJEEB HAFEEZ</b>

**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Mujeeb Hafeez. My business address is 12535 Reed Road, Sugar Land, TX 77478.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by SouthWest Water Company ("SouthWest") as Director, FP&A within Corporate Shared Services. I previously was employed by SouthWest as Assistant Controller, in which capacity I'm testifying in this case

**Q. BRIEFLY DESCRIBE YOUR DUTIES AS ASSISTANT CONTROLLER.**

A. My responsibilities consisted of the following for SouthWest and its subsidiaries, including Kiawah Island Utility, Inc. ("KIU" or "Company"): implementing and maintaining an appropriate system of internal controls; ensuring financial records are maintained in compliance with company policies and U.S. Generally Accepted Accounting Principles ("GAAP"); overseeing the general accounting function; providing technical accounting GAAP guidance and support; overseeing internal and



1 external financial reporting; coordinating SouthWest's annual external audit; and  
2 assisting in regulatory proceedings.

3 **Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
4 **BACKGROUND.**

5 A. My educational background consists of a Bachelor of Science in Accounting and a  
6 Master of Science in Accounting from the University of Houston. I was previously a  
7 Certified Public Accountant in the State of Texas until 2021 at which time I elected to  
8 place my license in an inactive status. I have been employed by SouthWest since 2018.  
9 My professional background prior to being employed by SouthWest includes eight  
10 years of public accounting experience with PricewaterhouseCoopers, LLP ("PwC"), a  
11 multinational professional services firm and one of the "Big Four" public accounting  
12 firms. While at PwC, I served audit clients with a focus in the regulated investor owned  
13 and private equity-owned utilities industry, including SouthWest and KIU.

14 **II. PURPOSE OF DIRECT TESTIMONY**

15 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
16 **PROCEEDING?**

17 A. The purpose of my direct testimony in this proceeding is to discuss SouthWest  
18 corporate costs and the allocation methodology of those costs across SouthWest's  
19 subsidiaries, including KIU. The total SouthWest allocable indirect corporate costs  
20 (discussed further below) for the Test Year total \$13.9 million, of which 4.3% or  
21 approximately \$598 thousand, is allocated to KIU.

1                   **III.       OVERVIEW OF SOUTHWEST WATER COMPANY**

2   **Q.       BROADLY SPEAKING, HOW ARE SOUTHWEST'S UTILITY OPERATIONS**  
3   **ORGANIZED?**

4   A.       SouthWest is a private, investor-owned company that, through its subsidiaries,  
5           provides water and wastewater utility services to customers throughout the United  
6           States. SouthWest's operations are comprised of several business units which are  
7           generally disaggregated by geography (e.g. region, state, etc.). The Cost Allocation  
8           Manual included with this direct testimony as Attachment MSH-1 describes the  
9           methodologies used by SouthWest to allocate costs, which I will also address in this  
10          testimony. Additionally, SouthWest's organizational structure depicting its business  
11          units and their subsidiary operations is included as Attachment MSH-2.

12   **Q.       HOW ARE THE FINANCIAL RESULTS OF SOUTHWEST'S BUSINESS**  
13   **UNITS CURRENTLY REPORTED?**

14   A.       As of the end of the 2020 Test Year, the financial results of SouthWest's operations  
15           were reported by seven business units. Six business units are attributable to operations:  
16           Suburban Water Systems ("SWS"), Texas Utilities ("TWU"), Southeast Utilities –  
17           Alabama ("SEU-AL"), Southeast Utilities – Palmetto ("SEU-Palmetto), Southeast  
18           Utilities – Low Country ("SEU-LC"), and Northwest Utilities ("NWU"). The seventh  
19           business unit—Corporate Shared Services—is included in the parent, SouthWest.  
20           Corporate Shared Services is comprised largely of indirect costs that benefit  
21           SouthWest's utility business units and are not directly traceable to any of them. The  
22           indirect costs captured in the Corporate Shared Services business unit are allocated to  
23           the utility business units.

1           **IV.       INDIRECT COSTS AND ALLOCATION METHODOLOGY**

2   **Q.       PLEASE DESCRIBE SOUTHWEST'S COST ALLOCATION MANUAL.**

3   **A.**       SouthWest prepared its Cost Allocation Manual in accordance and conformance with  
4           the National Association of Regulatory Utility Commissioners' *Guidelines for Cost*  
5           *Allocations and Affiliate Transactions* ("NARUC Guidelines"). The foundational  
6           principles of the Cost Allocation Manual are to directly charge as much of the incurred  
7           costs as possible to the entity that procures any specific service; fairly allocate costs  
8           that cannot be directly charged to SouthWest's subsidiaries; and ensure that  
9           unauthorized subsidization of unregulated activities by regulated activities, and vice  
10          versa, does not occur.

11 **Q.       WHAT PRINCIPLES GUIDE THE ALLOCATION OF COSTS?**

12 **A.**       As the Cost Allocation Manual provides, the principles that guide the allocation of costs  
13          for products or services provided by SouthWest to its affiliates are as follows:

- 14           • To the extent practicable, in consideration of administrative costs, costs should be  
15           collected and classified on a direct basis for each asset, service, or product provided;
- 16           • The general method for charging indirect costs should be on a fully allocated, cost-  
17           causative allocation basis, without any associated margin or mark-up;
- 18           • All direct and allocated costs should be traceable on the books of the applicable  
19           affiliate;
- 20           • Documentation regarding transactions between the regulated utility and its  
21           affiliates should be made available for review by the appropriate Commission or  
22           other regulatory authority, upon request, to address their reasonable concerns in the

1 exercise of their responsibility to examine any of the costs sought to be recovered  
2 by the utility in rate proceedings; and

- 3 • The primary cost driver of common costs, or a relevant proxy in the absence of a  
4 primary cost driver, should be identified and used to allocate the cost to all  
5 affiliates.

6 **Q. WHAT COSTS ARE CONSIDERED CORPORATE ALLOCABLE INDIRECT**  
7 **COSTS AND WHAT ALLOCATION METHODOLOGY IS USED?**

8 A. Indirect costs are those corporate costs that benefit all SouthWest business unit  
9 operations and that are so general in nature as to require prorations based on a  
10 combination of several pertinent factors. To allocate those costs among the business  
11 units, the Cost Allocation Manual describes the three-factor allocation methodology  
12 consisting of the following factors weighted equally: 1) gross plant; 2) operating  
13 expenses including payroll expenses (e.g. salaries and wages, payroll taxes, etc.); and  
14 3) payroll expenses.

15 **Q. SPECIFICALLY, IN WHICH AREAS ARE INDIRECT COSTS INCURRED,**  
16 **FOR WHAT PURPOSE, AND WHAT IS THEIR MAGNITUDE?**

17 A. As noted in SouthWest's Cost Allocation Manual, indirect costs are attributable to the  
18 following corporate functions, which are essential in providing effective utility service:  
19 1) executive & corporate development ("CD"); 2) legal; 3) information technology; 4)  
20 human resources; 5) facilities; and 6) finance. The allocable indirect corporate costs  
21 for the Test Year total \$13.9 million and are shown by corporate function in Attachment  
22 MSH-3.

1 **Q. IS THE \$13.9 MILLION IN CORPORATE COSTS REASONABLE?**

2 A. Yes. As described more fully below, these costs are essential to the successful  
3 operation of KIU, and—due to the shared services model—are more economic for KIU  
4 to obtain via its corporate parent than would be possible on the open market. Details  
5 of the services provided by corporate shared services benefitting KIU's customers are  
6 discussed below.

7 **Q. PLEASE SUMMARIZE THE BENEFITS THAT CUSTOMERS ACCRUE AS A**  
8 **RESULT OF USING SOUTHWEST'S CORPORATE SHARED SERVICES.**

9 A. Corporate provides shared services more effectively and efficiently than could be  
10 provided to the individual affiliates individually. Customers benefit from economies  
11 of scale from the shared services model. Additionally, the costs of SouthWest's  
12 Corporate Shared Services are allocated to subsidiaries without any associated margin  
13 or mark-up.

14 **Q. PLEASE DESCRIBE THE INDIRECT CORPORATE SHARED SERVICES**  
15 **AND THEIR COSTS THAT SOUTHWEST ALLOCATES TO ITS**  
16 **AFFILIATES.**

17 A. Broad categories of costs being allocated are Executive & CD, Legal, Information  
18 Technology, Finance, Human Resources, and Facilities. A review of Attachment  
19 MSH-3 shows that the Executive & CD function accounts for \$4.762 million (34.3%),  
20 the Finance function for \$4.007 million (28.8%), and the Information Technology  
21 function for \$3.392 million (24.4%). The combined cost of Legal, Human Resources,  
22 and Facilities is \$1.735 million (12.5%). SouthWest's Corporate Shared Services  
23 business unit includes a total of 48 employees for the Test Year. Information

1 Technology has the greatest number employees with 19, followed by Finance with 18,  
2 and Executive & CD with 9. Human Resources and Facilities each have one employee.  
3 A discussion of each function's responsibilities and indirect costs follows below.

4 **A. Executive & CD**

5 The executive portion of this function is responsible for providing strategic vision and  
6 guidance, business strategy and development, executive management and oversight,  
7 and the overall direction of the company. The executive function consists of the Board  
8 of Directors and a core group of four senior executives; the Chief Executive Officer,  
9 Chief Operating Officer, Chief Financial Officer, and General Counsel. Additionally,  
10 the executive function includes an administrative assistant who is responsible for  
11 providing administrative support to the executive team. These employees are integral  
12 and indispensable members of this group.

13 The CD portion of this function is responsible for promoting company growth  
14 and consists of an executive vice president, two directors, and an analyst. Company  
15 growth benefits existing customers through myriad ways, but most specifically in  
16 reducing the allocated portion of shared costs. As an example, the three-factor  
17 allocation to KIU was 5.2% at the time of KIU's last rate case. In the current  
18 application, the three-factor allocation percentage is now 4.3%, which represents a  
19 decrease of 0.9%, or an approximate reduction of \$125 thousand of Test Year corporate  
20 costs allocated to KIU.

21 Not as easily quantifiable but important nonetheless, company growth achieved  
22 through CD improves operational efficiencies as well, as larger water and wastewater  
23 facilities tend to be more efficient and less likely to experience operational issues,

1 technology initiatives are more affordable and easily implemented for a larger number  
2 of customers, and larger utilities generally enjoy stronger buying power. Additionally,  
3 employees are more likely to feel better about being part of a growing company,  
4 ultimately reducing turnover.

5 The Test Year cost attributable to the executive & CD function was \$4.762  
6 million. Approximately \$3.873 million represents payroll and benefits for this  
7 function, or 81.3% of the total. Based on a January 2021 Willis Towers Watson  
8 Executive Benchmarking Study, total direct compensation provided to the four senior  
9 executives (which includes total incentive compensation), when viewed against the  
10 market for talent for executives in similar positions, is within the median market  
11 competitive range. Elements of the executive compensation program include base  
12 salary, short-term at-risk compensation, and long-term at-risk compensation. A portion  
13 of the short-term at-risk compensation, and all of the long-term at-risk compensation is  
14 based on financial measures. Although total compensation, including the consideration  
15 of all incentive compensation, is within the median market competitive range, incentive  
16 compensation based on financial measures has been excluded from the Test Year costs.

17 Approximately \$695,000 represents the Board of Directors' fees for six paid  
18 board members, or 14.6% of the total. Based on a September 2020 Willis Towers  
19 Watson Outside Director Pay Review Study, when compared against comparable peer  
20 organizations for which compensation data are available from publicly disclosed  
21 proxies, SouthWest's board of directors are paid below market median. Approximately  
22 \$117,000 consists of the cost of insurance representing approximately 2.5% of the total  
23 cost. The cost of insurance represents the cost for Directors and Officers and Broad

1 Form Side A, Crime, Cyber Liability, Employment Practices Liability, Property, and  
2 broker's fees. Regarding the Directors and Officers and Broad Form Side A insurance,  
3 there is risk in the form of legal liability inherent in director and officer positions. No  
4 one would serve in these positions unless they were adequately insured against such  
5 risk. Therefore, the cost of such insurance is indispensable as a cost of the executive  
6 function. Together, these indispensable cost components (payroll and benefits, director  
7 fees, and insurance) amount to 98.4% of the total cost of this function. The total costs  
8 of \$4.762 million represents a necessary and reasonable cost for SouthWest with  
9 respect to the executive & CD function.

10 **B. Legal**

11 The Legal function is responsible for:

- 12 • corporate governance;
- 13 • transactional, employment, and real estate law;
- 14 • litigation;
- 15 • general legal affairs; and
- 16 • management of outside counsel.

17 The shared legal resources of SouthWest consist of only the General Counsel.  
18 The cost of this position is included in the Executive & CD function described above  
19 as the General Counsel also serves as an executive of SouthWest. Therefore, this  
20 represents an efficient structure to address the responsibilities of this function.

21 The adjusted recorded cost of the legal function in the Test Year was  
22 approximately \$124,000. The legal costs incurred at the corporate level for general  
23 corporate matters totaled approximately \$79,000 in the Test Year.



1           One of the most important functions of the General Counsel is managing and  
2           administering the efforts and costs of outside counsel. On an ongoing basis, SouthWest  
3           has a number of legal matters that are assigned to various outside counsel. It would not  
4           be possible for the General Counsel alone to address the volume of litigation, and it  
5           would be financially prohibitive to employ the number of in-house counsel that would  
6           be needed to address all these legal matters. Therefore, reliance on outside counsel is  
7           an efficient way to address many of SouthWest's legal matters.

8           The cost of outside legal fees attributable to legal matters affecting all  
9           SouthWest subsidiaries is subject to wide variation depending upon the number and  
10          magnitude of legal issues that arise and their cost to effectively litigate.

11   **C.    Information Technology**

12          The information technology ("IT") function is responsible for identifying,  
13          implementing, and maintaining advanced and cost-effective systems solutions in  
14          support of SouthWest business. This function is comprised of four groups as follows:

- 15           • Administration—Responsible for working with business units and vendors  
16           to ensure the highest quality of services to support business operations.  
17           Also develops short and long-range technology objectives, provides  
18           contract and project management, evaluates company business goals and  
19           objectives, and supports business units from a technology advisory  
20           standpoint;
- 21           • Infrastructure, Network, and Computer Desktop Support - Responsible for  
22           the planning, architecture, implementation, administration, and support of  
23           company data, telecommunications, wide area network infrastructure, and

1 database servers. Also provides frontline desktop and helpdesk technical  
2 support, procurement and management of IT assets and serve as the primary  
3 point of contact for end users and their computer or system needs;

- 4 • Information and Cyber Security - Responsible for the security configuration  
5 of all enterprise systems, IT governance and controls, and risk mitigation.  
6 Also develops and configures security roles in all enterprise systems,  
7 creates and terminates users, performs password resets, and configures  
8 permissions on Outlook public folders and servers. This function monitors  
9 automated and manual malicious attacks of company, employee, and  
10 customer information assets and identifies, analyzes, and mitigates  
11 associated risks; and
- 12 • Business Applications - Responsible for managing the ongoing  
13 systems-related business processes, administration, development and  
14 project management for company System Applications and Products in  
15 Data Processing (“SAP”) enterprise system to include: 1) the core functions  
16 of financials, material management, sales and distribution, human  
17 resources, payroll and benefits; 2) the industry specific solutions for utilities  
18 functions for accounts, meters and meter reading, bill and bill print, and  
19 customer relationship management; and 3) business reporting tools. Also  
20 responsible for the configuration and maintenance of customer-facing  
21 billing and payment applications to ensure the ease-of-use process for  
22 customers to view and provide payment for their bills.

1           The total headcount for the Information Technology function is 19. These 19  
2 employees are responsible for the IT function and reside at the corporate level. This  
3 headcount is assigned to the various IT functions noted above as follows:

- 4           • Administration (1)—Consisting of the Vice President of IT who is  
5 responsible for the total IT function;
- 6           • Infrastructure (5)—Consisting of a Manager of Telecommunications, one  
7 SAP DBA and Basis Administrator, one Desktop Support Analyst, one  
8 Telecommunications Analyst, and one Webmaster;
- 9           • Cyber Security (2)—Consisting of a manager of Infrastructure and a  
10 Security Analyst; and
- 11          • Business Applications (11)—Consisting of an IT Director, IT Project  
12 Manager, Manager SAP Solution Architect, two Functional Team Leads,  
13 one SAP ABAP ISU/CCS Programmer, and five SAP Functional Analysts  
14 responsible for various functions within the SAP system.

15           SouthWest maintains minimal headcount for these IT functional areas while  
16 still addressing the responsibilities of the various IT functions. Therefore, a headcount  
17 of 19 employees represents an efficient manner to accomplish the responsibilities  
18 within the various IT functions. No IT resources are directly employed by KIU.  
19 Responsibility for overall IT systems and related IT functions in support of these  
20 systems (including desktop and computer hardware and server support) are totally  
21 centralized and accounted for as allocable indirect costs. The importance of the IT  
22 function and ultimate benefit to customers cannot be overemphasized in that essentially  
23 every aspect of SouthWest, its subsidiary utilities, and ultimately rate payers rely on IT

1 systems and telecommunications. SouthWest realizes that IT is critically important to  
2 customers and manages these costs closely. The computer and telecommunications  
3 infrastructure and support provided by the IT function is right for SouthWest for the  
4 following reasons:

- 5 • To conduct business and address customer requirements, SouthWest  
6 requires a skilled and dependable IT function in the areas of  
7 Infrastructure/Telecommunications/Desktop Support, Applications, and  
8 Cyber Security;
- 9 • Southwest has made a commitment to leveraging a modern applications  
10 infrastructure in SAP and also to employing skilled internal resources to  
11 efficiently support customer needs and as a result requires fewer resources  
12 to execute manual processes;
- 13 • SouthWest is sensitive to the modern reality of manual and automated  
14 threats affecting Cyber Security associated with its business applications  
15 like SAP and Email, as well as its operational technologies such as  
16 supervisory control and data acquisition (“SCADA”); and
- 17 • The SouthWest IT platform for Telecommunications and Infrastructure,  
18 Cyber Security, and Applications that exists is a stable, reliable and state of  
19 the art computing platform that supports business and customer  
20 requirements not only for current needs, but also provides a platform for  
21 growth in the future.

22 The adjusted recorded cost attributable to the IT function in the Test Year was  
23 \$3.392 million. Approximately \$2.153 million (63.5%) represents payroll and benefits

(net of capitalized direct labor). Incentive compensation based on financial measures has been excluded from Test Year costs.

In addition to payroll and benefits, significant core non-payroll costs are associated with IT functions. These core ongoing costs are attributable to facilities, data circuitry and connectivity, voice and data network lines, hardware and software licensing and maintenance costs, laptops, copiers, printers, and mobile communication devices. The remaining \$1.240 million of costs in the IT function relate to these activities. The \$3.392 million represents a necessary and reasonable cost for SouthWest regarding the IT function.

#### **D. Finance**

The Finance function is responsible for the accurate and timely accounting for corporate transactions, the accurate and timely preparation of financial statements, preparation of budgets and forecasts, accounts payable, treasury, capital structure, risk management, audit, tax, and providing management with the financial information necessary for informed operating and financial decision making.

For the Test Year, a total of 18 employees were devoted to the various efforts within the Finance function. This headcount consists of the following:

- Accounting (6) - Controller, Assistant Controller, Manager, Senior Accountant, Senior Accountant, Clerk;
- Payroll (2) - Manager, Specialist;
- Accounts Payable (2) - Manager, Clerk;
- Financial Planning & Treasury (6) - Vice President, Treasury Director, Planning Director, Manager, Financial Analyst, Treasury Analyst;

- Tax (1) - Director; and
- Internal Audit (1) - Director.

There are no consolidated functions at any of the subsidiary levels; i.e. accounting, payroll, accounts payable, treasury, risk management, tax or audit function. All of these consolidated functions are indispensable and are performed appropriately at the corporate level. The 18 employees within the Finance function are a reasonable number for the activities for which they are responsible and represent an efficient headcount to address the various responsibilities.

The adjusted recorded cost attributable to the Finance function in the Test Year was \$4.006 million. Approximately \$3.098 million (77.3%) represents payroll and benefits. Incentive compensation based on financial measures has been excluded from Test Year costs. The cost of SouthWest's annual audit performed by PwC and tax work performed by RSM US LLP and Delta Property Tax Advisors is approximately \$489,000 (12.2%). Annual audits are mandatory under SouthWest credit agreements. Bank charges and rating agency charges were approximately \$177,000 (4.4%). SouthWest's banks provide an indispensable service at competitive fees for processing cash receipts and payments and providing computer access for monitoring, managing, and facilitating the movement of cash. Additionally, the cost of an annual rating on SouthWest's debt is necessitated by a covenant in each such debt agreement to maintain a rating. Together, the cost of finance staff, mandatory annual audits and tax filings, bank charges, and credit rating agency charges represent 93.9% of the cost of this function. SouthWest seeks to acquire and retain an efficient and talented finance staff at competitive compensation. SouthWest negotiates reasonable pricing for mandatory

1 annual audits, tax work, and indispensable banking and credit rating agency services.  
2 Therefore, the total cost of \$4.006 million represents a reasonable and necessary cost  
3 for the finance function.

4 **E. Human Resources**

5 The Human Resources function is responsible for effective policies and procedures in  
6 support of the workplace and SouthWest in operation of the business, talent acquisition  
7 and retention, management of employee benefit programs, employee and  
8 organizational development, compensation administration, succession planning, and  
9 rewards and recognition programs that drive performance. The Human Resources  
10 function consists of one Vice President, which is an efficient staffing level.

11 The adjusted recorded cost attributable to the Human Resources function in the  
12 Test Year was \$1.036 million. These costs consist primarily of payroll and outside  
13 services. The level of payroll and benefits is appropriate. Incentive compensation  
14 based on financial measures has been excluded from Test Year costs. The outside  
15 services consist of professional fees attributable to various consultants and vendors who  
16 provide professional advisory, administration, training, and financial services and are  
17 indispensable in support of the human resources functions. Together, payroll and  
18 outside services amount to 90.2% of the total cost of this function. The remaining 9.8%  
19 of costs relate to employee education and other general and administrative costs.  
20 Therefore, the \$1.036 million cost for Human Resources and the indispensable outside  
21 services on which this function relies is a reasonable and necessary cost for SouthWest  
22 regarding the Human Resources function.

1     **F.     Facilities**

2             The Facilities function is responsible for maintenance and operation of a two -story  
3             32,000 sq. ft. corporate office located in Sugar Land, Texas (the Reed Road Facility)  
4             and an 8,400 sq. ft. consolidated records retention facility located nearby (the Eldridge  
5             Road Facility). A discussion of these facilities follows:

6                     **1.     Reed Road Facility**

7             In March of 2001, the corporate office facility on Reed Road in Sugar Land,  
8             Texas, was leased for a 25-year period ending in February 2026. The base rent portion  
9             of the lease makes provision for periodic increases in monthly rental payments over the  
10            term of the lease. The lease expense for the Reed Road facility for the Test Year is  
11            approximately \$408,000. For reference, an image of the Reed Road facility is shown  
12            below:





1 SouthWest subleases a portion of its corporate office space to its Texas Utilities  
2 business unit at a Test Year cost of approximately \$230,000 (inclusive of utilities,  
3 maintenance and repairs, property tax, property insurance). Net of the lease payments  
4 associated with this sublease, SouthWest's lease expense subject to indirect cost  
5 allocation for the Test year is approximately \$178,000.

6 Repair and maintenance for the Test Year was \$121,000. SouthWest's property  
7 tax for the facilities function totaled \$64,000. Utilities for the corporate office was  
8 approximately \$42,000.

## 9 **2. Eldridge Road Facility**

10 In February 2013, SouthWest entered into lease agreements for warehouse  
11 space on Eldridge Road in Sugar Land for records retention. The initial leases have  
12 been regularly extended. Lease expenses for the Test Year totaled approximately  
13 \$58,000. Utilities and repair and maintenance for the Test Year totaled approximately  
14 \$5,000.

15 Net annual costs for both the Reed Road and Eldridge Road facilities for the  
16 Test Year totaled \$468,000 (\$405,000 for Reed Road and \$63,000 for Eldridge Road).

17 The Facilities function consists of one person at the senior maintenance  
18 technician level who is responsible for the daily maintenance and operation of these  
19 facilities. One senior facilities and maintenance technician is the minimum and  
20 therefore is an efficient headcount for the facilities function to address the  
21 responsibilities of this function.

22 The adjusted recorded cost attributable to the Facilities function for the Test  
23 Year was approximately \$576,000. Approximately \$562,000, or 97.6%, represents the

net cost of rent, utilities, maintenance and repair, and property taxes for the Reed Road and Eldridge Road facilities and payroll and benefits for a senior maintenance technician. The total costs of \$576,000 represent a reasonable and necessary cost for SouthWest with respect to the facilities function.

## **V. ALLOCATION OF ALLOWABLE INDIRECT COSTS**

**Q. WHAT METHOD DID SOUTHWEST USE TO ALLOCATE THE INDIRECT COSTS DISCUSSED ABOVE?**

**A.** SouthWest incurs two types of costs that are passed on to its affiliates: 1) SouthWest's costs that directly benefit a particular affiliate, which are directly identifiable with that affiliate (direct costs); and 2) SouthWest's costs that are not identifiable with particular affiliates and that benefit all or multiple affiliates (indirect costs). Indirect costs are generally allocated by the three-factor methodology or to a much lesser extent, a specific methodology.

The three-factor methodology is used to allocate the vast majority of Corporate Shared Services costs that are either not directly assigned to an affiliate or are not subject to any of the specific allocation methodologies. SouthWest uses the following factors, equally weighted:

- Gross Plant;
- Operating Expenses Including Payroll Expenses; and
- Payroll Expenses.

The application of the three-factor methodology for the Test Year is shown in Attachment MSH-4. The three-factor method for allocating corporate indirect costs

1 resulted in an allocation of \$598 thousand to KIU for the Test Year based on an  
2 allocation factor of 4.3% (see Attachment MSH-4).

3 As noted above, to a much lesser extent, some of SouthWest's indirect costs are  
4 allocated using specific allocation methods in the alternative to the -three factor  
5 allocation method. Indirect costs allocated using a specific allocation method are  
6 limited to premiums for consolidated insurance coverages, bank earnings allowances,  
7 employee medical insurance administrative charges, employee dental insurance, and  
8 IT maintenance costs. The specific allocation methods for these indirect costs are fully  
9 described in the SouthWest Cost Allocation Manual.

10 **VI. INSURANCE COSTS**

11 **Q. WHAT KINDS OF INSURANCE DOES SOUTHWEST RETAIN?**

12 A. SouthWest has identified risks to its assets, income, employees, information systems,  
13 and management, as well as the environment and third parties. To mitigate the potential  
14 financial loss associated with these risks, SouthWest has chosen to transfer a portion of  
15 these risks to the insurance marketplace. SouthWest pays premiums to carriers in the  
16 marketplace in return for their acceptance of these transferred risks.

17 SouthWest retains various types of consolidated insurance coverages to ensure  
18 business sustainability including workers' compensation, auto, primary, umbrella,  
19 premises pollution, property, employment practices, cyber technology, crime, directors  
20 and officers, and broad form Side A. SouthWest's subsidiaries, including KIU, benefit  
21 from the economies of scale achieved by obtaining consolidated coverages, rather than  
22 each of its affiliates obtaining separate policies. The consolidated insurance premiums

1 and related broker fees are indirect costs that are allocated using a specific  
2 methodology.

3 **Q. WHAT METHODOLOGIES ARE USED TO ALLOCATE INSURANCE**  
4 **COSTS?**

5 A. As detailed in SouthWest's Cost Allocation Manual, costs of insurance coverages are  
6 allocated to affiliates based on the cost driver that determines the pricing of that  
7 particular policy. For example, property insurance costs are allocated based on the  
8 affiliate's proportion of property value relative to the whole. Certain coverages (e.g.,  
9 directors and officers, crime, and broad form Side A) function primarily at the corporate  
10 level; therefore, the premiums for these policies are allocated entirely to SouthWest  
11 corporate for further reallocation to SouthWest subsidiaries using the three-factor  
12 method.

13 **VII. APPROPRIATENESS OF ALLOCATION METHODS**

14 **Q. PLEASE EXPLAIN WHY SOUTHWEST'S ALLOCATION**  
15 **METHODOLOGIES ARE AN APPROPRIATE METHOD FOR**  
16 **ALLOCATING THE INDIRECT COSTS DISCUSSED ABOVE.**

17 A. Based on its combination of regulated and non-regulated affiliates, an allocator  
18 comprised of the three factors and the specific allocation methods described above best  
19 reflect the underlying cost drivers associated with the circumstances and business  
20 model of SouthWest and its subsidiaries.

1     **Q.     ARE SOUTHWEST'S ALLOCATION METHODOLOGIES USED**  
2     **CONSISTENTLY AMONG ALL OF ITS SUBSIDIARIES INSIDE AND**  
3     **OUTSIDE OF SOUTH CAROLINA?**

4     A.     SouthWest employs the same allocation methodologies for allocating indirect  
5     corporate costs in all its operating jurisdictions.

6 Q. DOES SOUTHWEST PROVIDE SERVICES TO ANY UNAFFILIATED  
7 PERSONS OR CORPORATIONS?

8     A.     No. SouthWest serves solely as a corporate parent to its subsidiaries and provides no  
9     services to any third parties.

10 **VIII. CONCLUSION**

11 Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

12 A. Yes.